



FEDERAL FINANCIAL STATEMENTS 1999 UPDATE FORUM

“Focus on the FY 1999 CFO Act Audit”

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Goal of 1999 USG AUDIT

CLEAN AUDITORS' REPORT





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PROBLEMS IN 1998 AUDITS

Changes to FACTS Submission After “Final”

Unexplained Adjustments to 9/30/97 Net Assets

Prior Period Adjustments

Nonconforming Legal Letters

“Surprise” Qualified Auditors’ Reports at Agencies



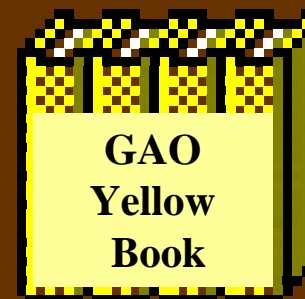
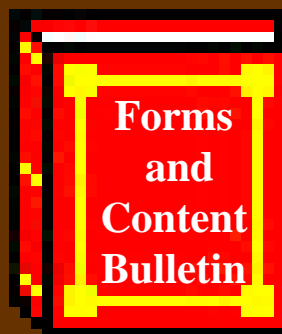
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STANDARDS CHANGES

FASAB -- FY 1999 Should be a “Breathing Spell”

OMB Form and Content Bulletin -- Minor Changes

**GAGAS -- Amendment No. 1 - Computer Systems Documentation
Effective FY 1999**





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FACTS Issues

FY 1998 Ending Net Assets = FY 1999 Opening!

**Prior Period Adjustments Limited to Material Items -
Should be rare unless prior Auditors' Report was
qualified or disclaimed, or where FASAB requires.**

**Reconciliations with Treasury should be resolved -
Major part of FY 1998 \$23.9 Billion item !**

**Post - Submission Adjustment to FACTS Data should
be limited to unexpected, material items.**



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Prior Period Adjustments - When Used

Correction of an Error - Application of FASAB Principle, Mathematical Mistake, FASAB - Mandated Change -- Limited to Material Items

Change in Accounting Principle -- Change in Reporting Entity, Accounting for Long-Term Contracts, Depreciation Expense Changes

Presumption - Once Adopted, Generally an Accounting Principle should not be changed -- Overcome only when Alternative Principle is Preferable

Change in Estimate Does not Permit Restatement



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Legal Letters

FY 1997 -- 5 of 6 Letters were not in correct form -- FY 1998 2 of 3 Letters were not in correct form -- This is unacceptable.

Key Factors -- Probable, Reasonably Possible, Remote - That a loss may occur, whether or not a lawsuit has been filed.

Loss = Future outflow of resources or resource sacrifice

Entity Records Its Own Contingencies -- Cannot assume others will report “Bad News” or Pay for Loss

Entity’s Legal Counsel Must Issue Letter



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Other Problems

Intergovernmental Transactions -- Receivables and Purchases from and Payables and Sales to Other Agencies -- Should be Disclosed

Intra-agency Transactions -- Transactions Among Subunits of a Reporting Entity -- Should be Eliminated

Fixed Assets -- Capitalization Threshold, Depreciation Lives/Methods, Stewardship, Deferred Maintenance

Environmental Exposures -- Most Difficult Contingency to Record



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Auditors' Qualifications

Goal = “Clean” - Unqualified Auditors' Reports

**While all USG CFO Agencies would be in the “Fortune 500”,
few, if any, “Fortune 500” Entities have Qualified Reports**

**Almost all States and Larger Cities and Countries have History
of “Clean” Reports**

“Clean” Reports have Meaning Beyond Audit Itself

- Fair Presentation of Financial Statements**
- Financial Discipline for Timely and Orderly “Close”**



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Questions

